

 **CODE2040**
RESIDENCY

DEVELOPING DIVERSE
ENTREPRENEURIAL
ECOSYSTEMS

POWERED BY
 for Entrepreneurs

2016
REPORT



BACKGROUND

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In the winter of 2015, Code2040 launched the pilot of a program that would highlight and fund Black and Latinx entrepreneurs, support Google for Entrepreneurs Hubs in designing and achieving their diversity goals, and create a rich set of learning about the systemic breaks in the tech ecosystem that create barriers to success for Black and Latinx tech entrepreneurs. GfE and Code2040 collaborated to create a prototype “The Code2040 Residency” which ran from April 1, 2015 to March 31, 2016 with three GfE Hubs. The prototype program took place with 1871 in Chicago, Capital Factory in Austin, and American Underground in Durham.

THE GOALS OF THE RESIDENCY ARE THREE-FOLD:



Initial outcomes for the 2015 program were promising and in mid-2015 GfE and Code2040 decided to expand the program to all GfE Hubs in the United States in 2016. In 2017 the Residency will be in the 7 previous GfE Hubs and will add their newest partner TechSquare Labs in Atlanta, GA.

IN 2017 THE RESIDENCY WILL BE IN:



CHICAGO, IL
2015, 2016, 2017



DURHAM, NC
2015, 2016, 2017



AUSTIN, TX
2015, 2016, 2017



MINNEAPOLIS, MN
2016, 2017



SAN FRANCISCO, CA
2016, 2017



DETROIT, MI
2016, 2017




NASHVILLE
ENTREPRENEUR CENTER

NASHVILLE, TN
2016, 2017



ATLANTA, GA
2017

This report serves to give context for how the program is run, what we believe the impact of the program has been, and to share some of our top learnings to date and how the program outcomes can inform best practices for our tech entrepreneur and company ecosystems at large.

A man with short dark hair, wearing a grey zip-up hoodie and dark pants, stands in the center of the frame. He is smiling slightly. The background is a gradient of blue and purple. On the left, the number '2040' is visible in a light blue font. On the right, the letters 'CODI' are visible in a light blue font. A small logo with the text 'CODI for Entrepreneurs' is visible on the man's hoodie. The overall image has a semi-transparent teal overlay.

WHAT IS THE RESIDENCY?

At Code2040, we believe that a combination of access to new networks, community building, and skills development create the kind of ecosystem that enables people of color to thrive. Through the Residency program we work to create the conditions that allow entrepreneurs of color to launch and sustain thriving businesses and for the entrepreneurial ecosystems in which they live and work to become more inclusive and diverse.

Every year Code2040 goes through a call for entry process that runs in all participating cities to select the local entrepreneur in residence (EIR). In each city a combination of local press, social media, and community outreach allows for the recruitment of a pipeline of Black and Latinx entrepreneurs, many of whom were not previously connected to the local Hub. These entrepreneurs participate in a four stage process:



The individual who is selected will go on to represent their cities, their Hub, and Code2040 in the coming year. While fit between the EIR and Hub is crucial, Code2040 also ensures that the selected group as a whole has a balanced set of strengths and qualities to bring to bear in their cohort in order to overall maximize learning and growth.

Once EIRs are selected, they go through an onboarding process in which we build bonds in the cohort, we provide them with initial media training and diversity training, and then we announce their selection at SXSW. For many of the EIRs, this is the first press they or their company has received, and it generally kicks off a higher degree of recognition in their community, positioning them as a bright spot for other aspiring entrepreneurs of color to look up to.

06 | WHAT IS THE RESIDENCY?

Code2040 and Hubs work together to select a diversity goal for the duration of the program. Each Hub also gets a Diversity Coordinator to help support their diversity work. Hubs integrate their EIR into their leadership teams so as to ensure their EIR's ability to provide new perspective that may not already be represented in Hub leadership. Hubs also provide the EIR with certain supports such as office space for themselves and their team, and connections to those in the community who might help the EIR's business thrive.

Code2040's role is to quarterback and quality control the experience by providing a number of supports to the Hubs: a set of foundational diversity and inclusion trainings, coaching on the diversity goal creation and execution, input and guidance for the best utilization of the EIR, support selecting and training the Diversity Coordinator, and project management and support to keep this new ecosystem balanced and functioning well. Code2040 also provides a number of supports to the EIRs including attendance at select cohort retreats and external conferences and support on their business goals.¹

Code2040 staff visits each ecosystem throughout the year, visits which serve four purposes:

- 1.** Gain understanding of the racial and economic issues within the local communities
- 2.** Train hub staff so as to facilitate their ability to authentically connect with communities of color in their city
- 3.** Build alliances with local groups working on local science, technology, engineering, and math (STEM) diversity, economic development, tech creation and racial justice issues
- 4.** Attend events, meetings and other stakeholder conversations with Hub leadership to give support and guidance on diversity, equity, and inclusion (DEI) conversation and on strategies and tactics.

The combination of the Residency application process and our work in each community exposes Code2040 to more data about the entrepreneurial ecosystem for people of color than any other entity of which we are aware. Code2040 gathers the learnings created across geographies and translates those into programmatic and ecosystem insights that can move forward the work of creating more diverse entrepreneurial ecosystems and supporting more Black and Latinx entrepreneurs.

1 In 2016 we also provided EIRs with travel stipends to visit one another's cities, and with business coaches. We are in the process of evaluating whether these features will continue in 2017.



“Personally, this Residency has been an awakening for me. I have learned so much about what it means to be a founder of color in Silicon Valley, what the landscape looks like for black women in tech, and what things I feel I can do to change that landscape.”

Aniyia Williams
Tinsel (EIR, Galvanize)



**PROGRAM
IMPACT**

PROGRAM IMPACT

1. SUPPORT HIGH POTENTIAL EIRS

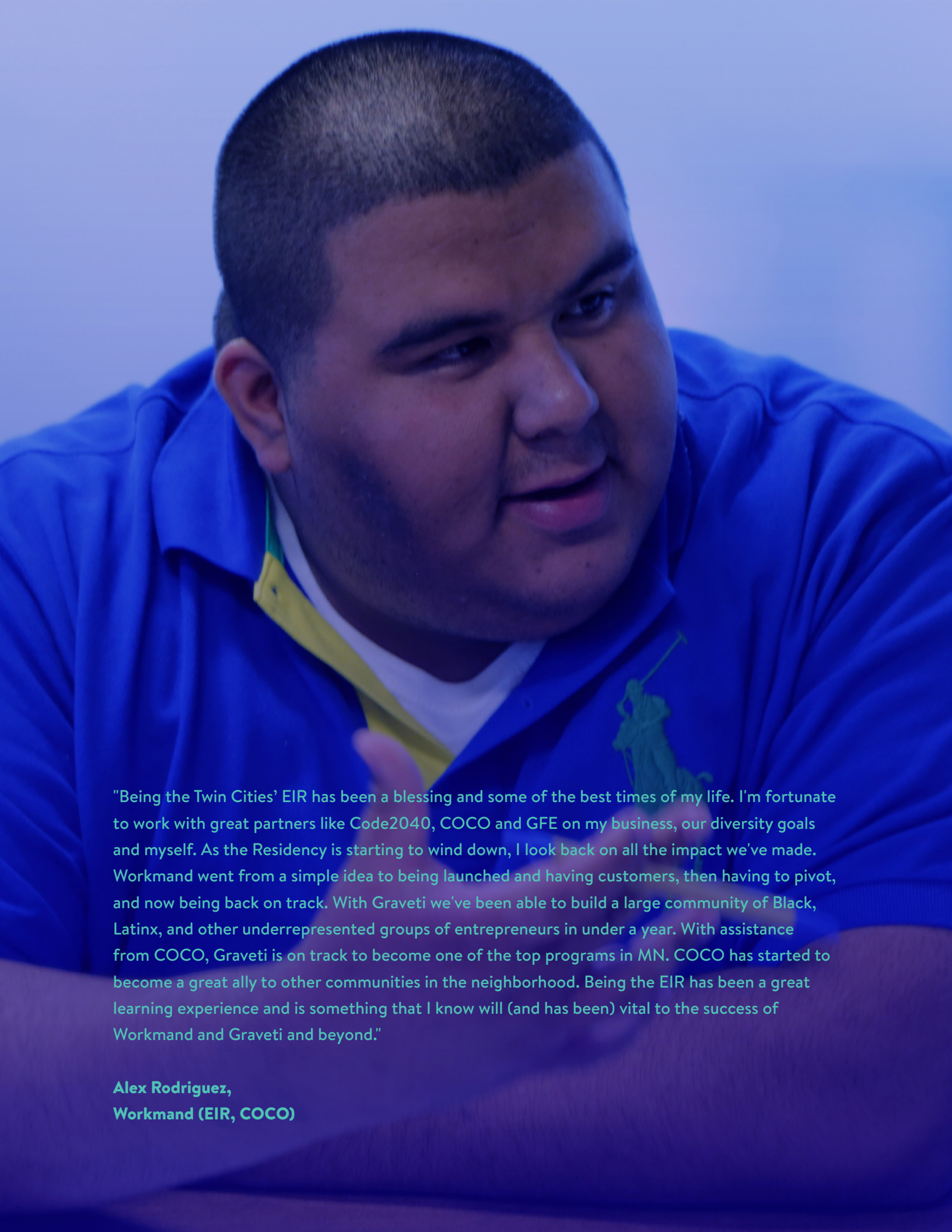
One of the ways we track program success is to understand the impact that the Residency has on the EIRs' businesses. While of course we cannot and do not take credit for business success, the EIRs say that they believe their success has been materially affected by and accelerated through participation in the Residency. In order to understand the impact the program has on EIRs, we track metrics like revenue generated, contracts landed, jobs created (i.e. employees hired), and networks built.

These numbers are best understood in context. While data on entrepreneurs of color is scarce, we know less than 1% of venture capital goes to underrepresented minority-founded startups each year and, for example, Black women typically raise an average of \$36k - if anything at all.²

IN TOTAL, OUR 2016 EIR COHORT HAS:

- GENERATED **\$500K** IN REVENUE
- RAISED **\$600K+** IN FUNDING
- SIGNED **28** CONTRACTS
- DEVELOPED NUMEROUS PIVOTAL RELATIONSHIPS AS A RESULT OF THE RESIDENCY

² <http://cnnmon.ie/218JufH>; <http://bit.ly/18vEhIn>



"Being the Twin Cities' EIR has been a blessing and some of the best times of my life. I'm fortunate to work with great partners like Code2040, COCO and GFE on my business, our diversity goals and myself. As the Residency is starting to wind down, I look back on all the impact we've made. Workmand went from a simple idea to being launched and having customers, then having to pivot, and now being back on track. With Graveti we've been able to build a large community of Black, Latinx, and other underrepresented groups of entrepreneurs in under a year. With assistance from COCO, Graveti is on track to become one of the top programs in MN. COCO has started to become a great ally to other communities in the neighborhood. Being the EIR has been a great learning experience and is something that I know will (and has been) vital to the success of Workmand and Graveti and beyond."

Alex Rodriguez,
Workmand (EIR, COCO)

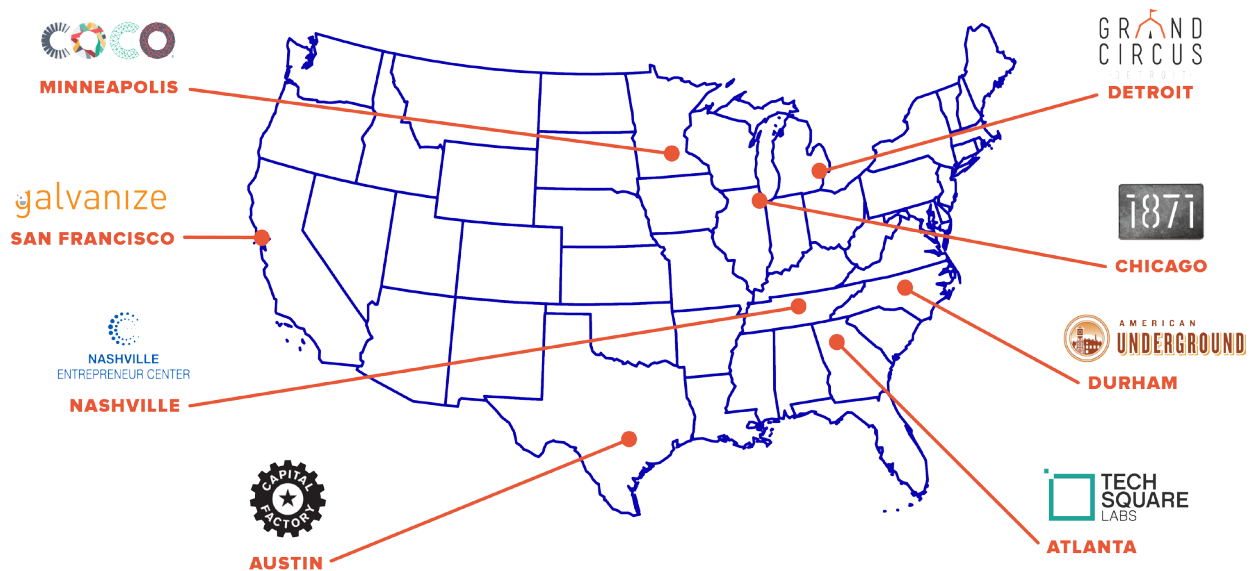
In addition, over the course of the last year EIRs in the cohort have been featured in the Nashville Post, Forbes, Inc, Harper’s Bazaar, and Ebony.

One of the biggest benefits the EIRs report from the Residency is the networking and connection-building the EIR cohort themselves have done for one another. Due to the travel stipend³ we have given each of the EIRs for use visiting a sister Hub, and the support they’ve provided one another on those visits, five of the seven EIR’s report that a member of their cohort connected them to a potential revenue source, contract, and/or opportunity. All report that being in the cohort itself has increased the network of each individual in the cohort.

2. SUPPORT HUBS’ EFFORT TO DIVERSIFY THEIR ECOSYSTEM

Another way we track program success is by understanding how Code2040’s support and the hosting of the EIR creates a more diverse and inclusive entrepreneurial ecosystem at the Hub itself. Historically this has been a challenging impact to measure because most Hubs did not have a baseline assessment of their level of diversity or the inclusiveness of their culture. However, as a result of coaching throughout the year, almost all Hubs are now tracking this data and able to see and report on progress.

OUR 2016 HUBS REPORT:



³ This was added to the 2016 program after feedback from the 2015 cohort that they wanted to engage more deeply with one another.

ALL HUBS HAVE PROVIDED PROGRAMMING THAT IS SPECIFICALLY **GEARED TO UNDERREPRESENTED GROUPS**, FOR 4 OF THE HUBS THIS WAS THEIR FIRST TIME DOING SO.

6 HUBS LEADERSHIP TEAMS HAVE RECEIVED **INCLUSION TRAINING** FROM CODE2040, INCREASING THEIR SKILLSET AROUND CREATING AND MANAGING DIVERSE ECOSYSTEMS.

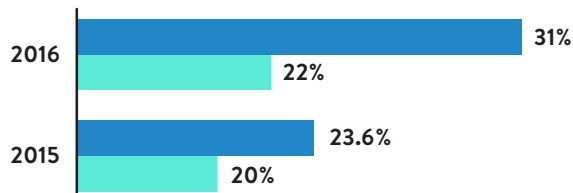
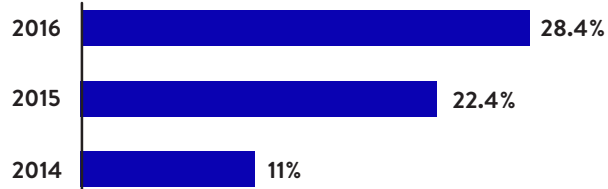
4 HUBS REPORT INCREASED PARTICIPATION WITH THEIR LOCAL COMMUNITIES AND INCREASED INVOLVEMENT WITH SEVERAL LOCAL AFFINITY GROUPS

5 HUBS HAD NO TRACKING MECHANISM TO MEASURE DIVERSITY PRIOR TO THEIR WORK WITH CODE2040 AND AS A RESULT OF THE RESIDENCY THEY NOW ACTIVELY TRACK PROGRESS.⁴


3 HUBS HAVE ESTABLISHED BASELINE MEMBERSHIP NUMBERS THAT WILL ALLOW US TO ADDRESS AREAS OF GROWTH IN 2017

2 HUBS WHO NOW TRACK PROGRESS REPORT AN INCREASE IN THE DIVERSITY OF THEIR MEMBERSHIP:

● Led by a minority ● Diverse members ● Female




⁴ Two Hubs still do not have baseline tracking in place.

A close-up portrait of Laurie Healy, a woman with short, light brown hair, smiling warmly. She is wearing a blue denim jacket over a dark top. The background is a soft, out-of-focus grey. The text is overlaid on the bottom left of the image.

“The community of Minneapolis-St.Paul is willing and wanting to have workshops, speakers and discussions around the topics of diversity and inclusion. Without the relationship with Code2040 and the ability to have a “platform” to talk from, I am not so sure that we would have been able to build the relationships we’ve built and are continuing to build. The Code2040 relationship has also been instrumental in helping COCO gain media exposure as a leader in this space, and a company that intentionally supports diversity and inclusion.”

Laurie Healy,
COCO



“First, we have a much deeper understanding of how to think through diversity throughout our whole organization, not just as a component of our work. Second, we have a much larger and more diverse network. I am speaking of this in the broadest sense. Everything from entrepreneurs in the space to mentors to investors to students and educators - AU is working with a much better network and set of resources because of the great work of the EIRs. This allowed us to pull off the GFE Exchange in a way we couldn't have done three years ago...not even close.”

Adam Klein,
American Underground



“The EC would not have accomplished as much as we have in the past year with our diversity and inclusion initiative if it weren’t for the partnership we have with Code2040 and the program that has enabled LeShane to make such a huge impact on our organization. Code2040 has provided expertise, excitement, and a structured program around an issue that our team was at the right stage to invest in (with both financial and human capital), but did not have as much experience or knowledge in. Because of this partnership, the EC has created a sustainable scholarship program, awarding 15 scholars per year, established a diversity and inclusion advisory board, and set realistic and impactful diversity goals among our various constituents. It is affecting our team internally as well in the way we think about hiring, marketing, communicating, etc. The way our team looks at and acts upon issues related to diversity and inclusion now is completely different because of the support, direction and partnership of Code2040 and our community is better for it. I believe this partnership is vital to continuing this growth.”

Kelli Nowers,
Nashville Entrepreneur Center



**LEARNINGS
& INSIGHTS**

LEARNINGS & INSIGHTS

This third goal of the program is to gain insights into challenges and opportunities in inclusive entrepreneurship. By working with our EIRs, the Hubs, and these ecosystems, we have received a tremendous amount of insight into what is working well in the creation of a diverse entrepreneurial ecosystem. We have a deeper understanding of what the challenges are, as well as insights into how Black and Latinx entrepreneurs are succeeding, what barriers they are facing to success, and more. Below is a summary of some of the learnings and insights gained from running this program.

INCLUSIVE ENTREPRENEURSHIP LEARNINGS

THE “REVERSE FRIENDS AND FAMILY” FUNNEL

INSIGHT: Often our entrepreneurs are the most financially successful members of their families.⁵ Many of their family members see them as a primary caretaker for not only their immediate but also their extended family. Not only does this severely hamper a Black or Latinx entrepreneur’s ability to “bootstrap” their company, it also means friends and family funding that often helps a venture get off the ground is not an option. It means that when investors use an entrepreneur’s own level of cash invested in their company as a screen for commitment, they are using a proxy that disproportionately will lead to rejecting Black and Latinx folks, who are those who must most often commit discretionary funds elsewhere.

FROM SIDE-HUSTLE TO FULL-TIME HUSTLE

INSIGHT: Often, the very skills you need to get something off the ground are the skills that hold you back you when you need to scale. EIRs who were effective executors and chaos-managers struggled with the creation of systems and operations that would pull them out of every decision and allow them to delegate effectively and to scale their enterprise. Yet in many cases they did not have the budget to hire someone to bring that skill set to the company.

5 It's worth remembering here that the median net worth of a White family is \$142,000 while the median net worth of a black family is \$11,000 and a Latinx family is \$14,000. <http://cnmmon.ie/1PNXlpl>

SILICON VALLEY ISN'T COMING TO SAVE US

INSIGHT: For all of the attention that the funding gap has garnered and all the discussion of diversity in tech, data indicates that investors are still not investing in tech entrepreneurs of color.⁶ We have watched an entire social scene pop up that is centered on the wining and dining of underrepresented entrepreneurs. VC firms have diversity nights, demo days, and booze cruises aimed specifically at founders of color. Yet little to none of that VC money is being used to actually cut checks for investment. This means an entrepreneur could spend tremendous amounts of time attending events, chasing introductions, and adjusting their pitch, yet funders will reward them with a group wine and dine but not an investment. Of note, after going through the Residency, and after further exposure to Silicon Valley investment culture, four of the seven Entrepreneurs say they no longer believe raising risk capital is the best strategy for growing their business. We must incorporate education on the various ways of funding an early stage venture rather than focusing on one model like angel/venture funding. For example, in 2016 we supported several EIRs on their work to create structures for landing enterprise contracts as a path to creating startup revenue.

RISK INVESTMENT ISN'T ALL THAT

INSIGHT: From data gathered through conversations with applicants broadly as well as EIRs specifically, we learned that there is a misconception in our communities about the role of investor dollars in the life of the early stage enterprise. Often, investments are viewed as income or as “free money” for their company. Perhaps due to lack of mentorship and exposure there is an expectation of “if you build it they will fund” - that if you build a product you will immediately begin receiving investor funding, and a lack of understanding around what investors look for in an enterprise, e.g. strong user acquisition or proof of the business model through sales revenue. Women are more likely to explicitly indicate their intention to grow organically, but we still find these numbers to be low. In any pilot, lessons are learned about what works and what doesn't when a program goes from idea to implementation. These are the learnings that are feeding our programmatic iterations to better achieve our goals. These insights from the 2016 cycle have led to iterations for the planned 2017 cycle and also lead us to some conclusions about what companies may need to better move diversity.

⁶ In the latest research, Black and Latinx founders receive less than 1% of venture funding <http://bit.ly/18vEhIn>

MOVING THE DIVERSITY NEEDLE – LEARNING FROM OUR HUBS

In any pilot, lessons are learned about what works and what doesn't when a program goes from idea to implementation. These are the learnings that are feeding our programmatic iterations to better achieve our goals. These insights from the 2016 cycle have led to iterations for the planned 2017 cycle and also lead us to some conclusions about what companies may need to better move diversity.

MORE SUPPORT

INSIGHT: Because of the notoriously busy schedule of an entrepreneur and because Hubs are often new to this work and not effectively staffed or resourced for it, it became clear that additional support would be critical for the day to day tracking and operations needed to move forward a diversity goal. Midway through the 2016 cycle we hired paid college interns to support Hub and EIR diversity goals. Halfway through the interns' tenure, we started to invest in them as participants in the program, supporting their leadership development, and we saw it pay dividends.

BROADER ECOSYSTEM IMPACT: When we were successful, we saw three things in place:

1. A leadership team that fundamentally understood the internal work that needed to occur
2. An intern who was able to move the operations required to measure and operationalize the work
3. Leadership listened to the Entrepreneurs and trusted them to be thought partners in, but not drivers of, Hubs' diversity strategy and work

It was this combination of outside expertise, internal humility and awareness, and resources that made the difference for the hubs that saw immediate impact.

NERVOUSNESS TO TRACK

INSIGHT: We faced quite a bit of resistance at the beginning of our partnership with regional partners around the consistent tracking of diversity measures. Hubs had never collected demographic information and requested and benefited from a lot of assistance both in the operations of and messaging behind the collection. The baseline setting and metric tracking was a competency that Hubs often lacked and it was a part of what prevented progress. It was not that they did not want to track, but that they did not know how to do it. We will start including competency building around baseline setting and metric tracking for Hubs before we go through the goal setting process with them in 2017.

BROADER ECOSYSTEM IMPACT: Something as simple as the measurement of a company's demographics is skilled work for a seasoned practitioner. Often the hesitation to step-up to this plate impedes progress companies are dying to get to. Find help! It's out there.

BE MORE PRESCRIPTIVE

INSIGHT: Initially, in wanting to be responsive to each community's needs, we gave a fairly blank slate set of instructions for the creation of diversity goals. We underestimated the amount of direction Hubs would want and need in making decisions about their goals. Goal setting either stalled or goals were very broad to the point of being un-actionable. Upon further digging, it turned out it was not reticence to participate or discounting of the importance but more something akin to writer's block. Once we became more prescriptive in the types of goals that should be chosen, we discovered Hubs were thirsty to make changes and ready to dive in and genuinely had no idea what DEI goal-setting looked like before the partnership.

BROADER ECOSYSTEM IMPACT: This has larger implications for the tech-sector at large that has struggled with the practical application of diversity strategy that moves the needle. In the beginning many companies will ask their department leads to set an internal diversity goal that can tend to get forgotten. Set your managers up for success by giving them very tangible options for this goal setting and access to the kind of training to meet them.

LEARNING THROUGH ECOSYSTEM ENGAGEMENT

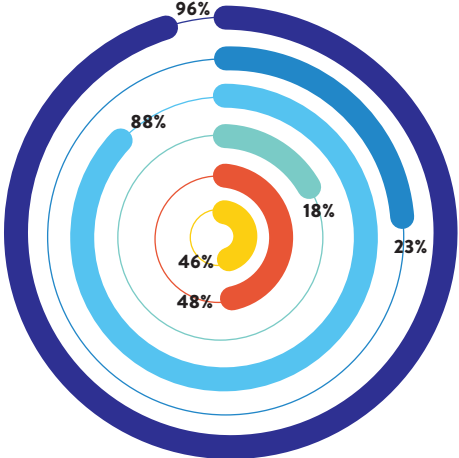
This is a window into a more comprehensive report we will release summer of 2017. We are focused on understanding how Black and/or Latinx founders experiences in fundraising, revenue generation and their views of how their local ecosystems affected these factors. Our upcoming report will take a more comprehensive look at trends by race, ethnicity and/or genders.

As many know, there are few data points around how capital is distributed to Black and/or Latinx founders. This is in part due to a lack of interest from the industry thereby causing few credible sources of data. The two most often quoted statistics are less than 1% of venture capital goes to Black founded startups each year and that Black women typically raise an average of \$36k, with no research exclusively for Latinx tech founders of any gender. This means that there is also no data that accounts for differentiation between the needs of specific communities or genders. We saw our call for entries process as a way to gather important data to better inform our program and the tech sector as a whole. Thereby being able to create programming to better serve the communities we want to create impact with, Black and/or Latinx tech founders. We had 187 applicants in 2017. Here are a few data points we found particularly interesting:



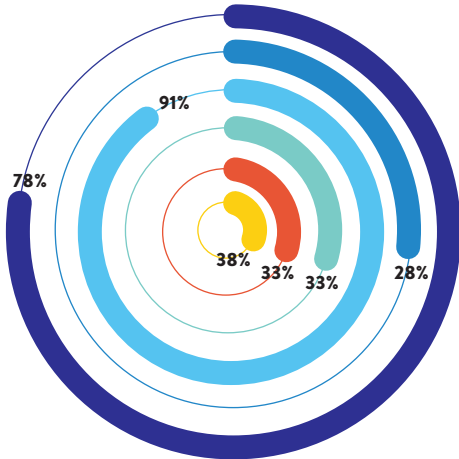
The optimism of our applicants when it comes to future VC funding is incongruent with, and not supported by, the trends in this industry. Furthermore, when asked how they plan to fund their businesses moving forward, less than 50% stated product sales as a source of income. The fact that they did not correlate the term “funding” with sales revenue indicates a strong need for training and education for this audience.

WOMEN OF COLOR



- 96% Invested own funds in enterprise
- 23% Received friends & family funds
- 88% Optimistic about access to VC funding in their city
- 18% Indicated venture capital as a future source of funding
- 48% Intend to pursue angel investors
- 46% Indicate sales as a future source of revenue

MEN OF COLOR



- 78% Invested own funds in enterprise
- 28% Received friends & family funds
- 91% Optimistic about access to VC funding in their city
- 33% Indicated venture capital as a future source of funding
- 33% Intend to pursue angel investors
- 38% Indicate sales as a future source of revenue

ABOUT THE CODE2040 RESIDENCY

The Code2040 Residency, powered by Google for Entrepreneurs, supports and connects Black and Latinx entrepreneurs with resources they need to take their companies to the next level, while cultivating diversity across the United States. Our program exists because we believe that being tech founders will create wealth for Black and Latinx communities.

www.Code2040.org

ABOUT GOOGLE FOR ENTREPRENEURS

We value starting small but dreaming big. We ourselves began in a garage nearly two decades ago and today we celebrate our entrepreneurial roots. Google for Entrepreneurs partners with startup communities and builds Campuses where entrepreneurs can learn, connect, and create companies that will change the world. Since 2011, we've launched Campuses and formed partnerships that support entrepreneurs across 125 countries.

To find a startup community go to:

www.googleforentrepreneurs.com

OUR PARTNERS:



CHICAGO, IL
2015, 2016, 2017



DURHAM, NC
2015, 2016, 2017



AUSTIN, TX
2015, 2016, 2017



MINNEAPOLIS, MN
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